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Message Text

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TO AMEMBASSY MONROVIA

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E.O. 11652: N/A

TAGS: EINV, ENRG, LI

SUBJECT: LIBERIA REFINING COMPANY (LRC)

REF: STATE 201429

1. FOLLOWING IS THE TEXT OF THE TELEX MENTIONED IN PARA 6, REFTEL, SENT BY DAVID L. REICHARDT, VICE PRESIDENT AND GENERAL COUNSEL FOR DYNALECTRON, ON AUGUST 11, 1977, TO GERALD PADMORE, LIBERIAN DEPUTY FINANCE MINISTER.

2. QUOTE: REGARDING OUR WITHOUT PREJUDICE MEETINGS IN NEW YORK ON AUGUST 8 AND 9, GOL'S LATEST PROPOSAL MOST SHOCKING TO DYNALECTRON FOR FOLLOWING REASONS:

A. YOUR REPRESENTATIVES PROPOSED VALUATION OF DYN AND SUN STOCK AT BETWEEN $5 MILLION AND $6 MILLION, PROVIDED CERTAIN ADJUSTMENTS FIRST MADE BY US STOCKHOLDERS TO LIABILITY SECTION OF LRC BALANCE SHEET.
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B. ADJUSTMENTS INCLUDED SATISFACTION OF ALL STOCKHOLDER DEBT; PAY OFF OF BANK OF LIBERIA LOANS AND OVERDRAFT (PRESENTLY ABOUT $5 MILLION PER CHEMICAL BANK), AND LRC TRADE PAYABLES (APPROXIMATELY $.3 MILLION); SATISFACTION OF "SAMOS STAR" CHARTER (APPROXIMATELY $4.7 MILLION REMAINING).

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C. YOUR REPRESENTATIVES ALSO ADVISED THAT ALL LRC ACCOUNTS RECEIVABLE (APPROXIMATELY $6 MILLION) WOULD HAVE TO STAY IN COMPANY AND COULD NOT BE USED TO OFFSET THE LIABILITIES MENTIONED IN PARAGRAPH 2 ABOVE.

D. FINALLY, WE WERE ADVISED THAT WE COULD RETAIN THE CRUDE INVENTORY HAVING COST OF APPROXIMATELY $4 MILLION, ALTHOUGH GOL WOULD NOT COMMIT TO PURCHASE SAME.

3. WE HAVE ANALYZED THIS PROPOSAL AS REQUIRING US STOCKHOLDERS TO MAKE APPROXIMATELY $10 MILLION AVAILABLE TO REMOVE THIRD PARTY LIABILITIES FROM BALANCE SHEET IN RETURN FOR PAYMENT OF BETWEEN $5 MILLION AND $6 MILLION. DEFICIT OF $4 MILLION TO $5 MILLION WOULD THEN HAVE TO BE RECOVERED FROM CRUDE SALE. SINCE VALUE AT COST ONLY APPROXIMATELY $4 MILLION, POSSIBLE NET RESULT IS $1 MILLION DEFICIENCY, ASSUMING FULL COST OF CRUDE REALIZED. IN OTHER WORDS, THE PRACTICAL EFFECT OF THE PROPOSAL OUTLINED BY YOUR MR. BOUGUERRA IS A TRANSACTION OF SOMEWHERE BETWEEN NEGATIVE $1 MILLION AND ZERO CONSIDERATION DEPENDING UPON CIRCUMSTANCES.

4. AS EXPLAINED TO YOUR REPRESENTATIVES BEFORE THEIR DEPARTURE ON AUGUST 9, WE FIND THIS PROPOSAL TO BE INCOMPREHENSIBLE, AND HAVE SO ADVISED THE US STATE DEPARTMENT. WE ASSUMED YOUR JULY 18 REQUEST FOR MEETINGS
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IMPLIED GOOD FAITH INTENTIONS TO FIND SOLUTION. WE CERTAINLY ATTENDED IN THAT SPIRIT AS EVIDENCED BY OUR WILLINGNESS TO DISCLOSE DURING THE FIRST MEETING OUR BASIC NEGOTIATING POSITION. WE WERE UNDERSTANDABLY DISTRESSED TO RECEIVE THIS PROPOSAL IN RESPONSE SINCE IT CONSTITUTES NOTHING MORE THAN A CLEAR INDICATION TO US THAT GOL HAS NO REAL INTEREST IN REACHING A FAIR SETTLEMENT. WHY ELSE WOULD YOU OFFER US ZERO CONSIDERATION AT BEST.

5. WE THINK IT ALSO REFLECTS ADVERSELY ON GOL TO DEMAND RETENTION OF ACCOUNTS RECEIVABLE WHICH INCLUDE OBLIGATION OF GOVERNMENT ELECTRIC UTILITY ESTIMATED AT $2 MILLION, AND PROBABLY $.04 PER GALLON SPECIFIED UNDER YOUR LETTER OF APRIL 76 TO LRC FOR HANDLING OF CERTAIN FINISHED PRODUCT CARGO. THESE CONSTITUTE ADDITIONAL DIRECT PAYMENTS TO GOL.

6. WE NOW RECONFIRM TO YOU, WITHOUT PREJUDICE TO OUR RIGHTS AND THE RIGHTS OF OUR INSURANCE UNDERWRITERS AS SUBROGEE, THAT WE CONTINUE TO BE AVAILABLE UPON REASONABLE NOTICE TO MEET WITH GOL REPRESENTATIVES IN WESTERN

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EUROPE OR THE EASTERN UNITED STATES FOR THE PURPOSE OF

CONDUCTING GOOD FAITH, MEANINGFUL NEGOTIATIONS. YOU MUST, HOWEVER, RECOGNIZE THAT YOUR MOST RECENT PROPOSAL--THE ELEMENTS OF WHICH WE CONFIRMED IN DETAIL WITH YOUR REPRESENTATIVES BEFORE THEIR DEPARTURE--IS AN INSULT TO OUR INTELLIGENCE AND CERTAINLY AT VARIANCE WITH THE PROFESSED SPIRIT OF YOUR JULY 18 TELEX INVITING DISCUSSIONS.

7. WE ARE HOPEFUL THAT DISCUSSIONS MAY RESUME ON A MORE CONSTRUCTIVE BASIS, AND IN THIS REGARD, WE AWAIT FURTHER WORD FROM YOU. REGARDS. UNQUOTE.

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